

AR39

**Handy & Harman
1968 Annual Report**



**Handy & Harman 1968 Annual Report
To Shareholders**



The Annual Meeting of
Shareholders of Handy & Harman
will be held on April 16, 1969
at Morgan Guaranty Trust Company
of New York, 299 Park Avenue,
New York City at 11:00 am.

Cover

Resembling sponges brought up from the deep, fine gold crystals, recovered from impure gold anodes in the electrolytic refining process at Attleboro Refining, cling to fine gold foil starter sheets. The sheets are used as cathodes in the electro-chemical reclamation system. In the next step, the crystals and sheets will be melted down and cast into fine gold bars.

Handy & Harman and Subsidiaries

Five Year Condensed Consolidated Summary of Operations

(Expressed in Thousands except Per Share Amounts)

	1968	1967	Percentage Increase or Decrease	1966	1965	1964
Sales of products and service revenues	\$200,653	\$182,519	+ 10	\$170,926	\$142,898	\$128,980
Cost of products and services	179,793	165,137	+ 9	154,930	130,293	117,980
Gross profit	<u>20,860</u>	<u>17,382</u>	<u>+ 20</u>	<u>15,996</u>	<u>12,605</u>	<u>11,000</u>
Selling, general, and administrative expense	9,036	8,108	+ 11	7,712	7,068	6,639
Interest on loans	3,146	2,391	+ 32	2,042	997	813
Other deductions (income)—net . .	(210)	(21)	—	(27)	(65)	38
	<u>11,972</u>	<u>10,478</u>	<u>+ 14</u>	<u>9,727</u>	<u>8,000</u>	<u>7,490</u>
	8,888	6,904	+ 29	6,269	4,605	3,510
Provision for United States and Canadian taxes on income . . .	<u>4,760</u>	<u>3,257</u>	<u>+ 46</u>	<u>2,817</u>	<u>2,117</u>	<u>1,677</u>
Income from continuing operations	4,128	3,647	+ 13	3,452	2,488	1,833
Loss from discontinued operations	<u>—</u>	<u>52</u>	<u>—</u>	<u>27</u>	<u>98</u>	<u>23</u>
Income before extraordinary charges	4,128	3,595	+ 15	3,425	2,390	1,810
Extraordinary charges	<u>—</u>	<u>132</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>626</u>
Net income	<u>\$ 4,128</u>	<u>\$ 3,463</u>	<u>+ 19</u>	<u>\$ 3,425</u>	<u>\$ 2,390</u>	<u>\$ 1,184</u>
Per share of common stock:						
Income from continuing operations	\$2.00	\$1.76		\$1.71	\$1.23	\$.91
Loss from discontinued operations	—	(.02)		(.01)	(.05)	(.01)
Extraordinary charges	<u>—</u>	<u>(.06)</u>		<u>—</u>	<u>—</u>	<u>(.31)</u>
Net income	<u>\$2.00</u>	<u>\$1.68</u>		<u>\$1.70</u>	<u>\$1.18</u>	<u>\$.59</u>
Dividends declared	\$.60	\$.60		\$.60	\$.50	\$.50

Net income per share is based on the average number of shares outstanding, adjusted retroactively to include shares issued in connection with poolings of interests transactions.

Highlights

Fifth Successive Record Year

The year 1968 was the fifth successive year of uninterrupted growth, both in terms of sales and after-tax earnings for Handy & Harman, and it was achieved in spite of the 10% surtax. Consolidated earnings increased by 13% and amounted to \$2.00 a share compared to \$1.76 for 1967 as restated.

Additional Growth Through Acquisitions

A total of four companies joined our corporate family during 1968, the same number as in 1967. This is gratifying progress toward our long range diversification goal, which is to derive ultimately 50% of our profits from non-precious metal business.

Capital Expenditure Rate Maintained

Capital expenditures throughout the parent company and subsidiaries amounted to a total of about \$2,800,000 in 1968, slightly more than in 1967. For the first time the amounts spent by the subsidiaries exceeded the amount spent at the parent company.

Further Progress Anticipated in 1969

For 1969 we are planning further progress both from internal growth and new acquisitions. Our projections are based on the assumption that the surtax will be extended, and we are also anticipating some slowdown in the rate of growth of the economy in general. In spite of these factors we look forward to another good year for Handy & Harman in 1969.

To Our Shareholders

The year 1968 set new records both in terms of sales and after-tax earnings. This was the fifth successive year of uninterrupted growth, and it was achieved in spite of the 10% surtax. Consolidated income after taxes amounted to \$4,128,000 compared to \$3,647,000 for 1967, an increase of 13%. These earnings were equivalent to \$2.00 a share of common stock for 1968 and \$1.76 a share for 1967. Without the surtax, 1968 earnings would have increased by 25% to \$2.21 a share. Per share earnings for 1967, originally reported at \$1.84, have been restated to reflect the larger number of shares outstanding resulting from poolings of interest during 1968. Consolidated sales for 1968 amounted to \$200,653,000, 10% over 1967.

There were a number of factors which went into making 1968 a record year, many favorable and a few unfavorable. Among the adverse factors, we have experienced a fairly sharp decline in sterling silver volume. As the price of silver has gone up, sterling silver manufacturers, who are our customers, have had to raise prices at the retail level. This has resulted in fewer items sold and hence reduced orders on us. However, in similar situations in the past, consumer demand has recovered after adjustment to higher price levels, and we would expect a comparable recovery this time. We also experienced a reduction in the volume of bimetal strip material we have been furnishing the United States Mint for making half-dollars. The original contract expired last June, and the present contract, which runs until June of 1969, provides for much smaller quantities in line with the substantially lower rate of production of half-dollars by the Mint. We expect that this program will ultimately be discontinued altogether.

In another area, interest expense increased sharply and was about 32% over 1967. The prime bank rate, which is the rate at which we borrow, reached a new high and currently stands at 7%, although the actual cost is substantially more because of the so-called compensating balances demanded by all banks.

On the favorable side, product lines, other than sterling and the coinage material, showed good improvement, both at the parent company and most of the subsidiaries. Also we were able to realize some profits from our pre-

Handy & Harman . . .

A Company of Companies.

As we begin our 103rd year of operation, Handy & Harman's family of subsidiary companies has grown to ten . . . each dedicated to the basic Company principle of producing high-value metal specialties for industrial, scientific and esthetic applications. Each is a company prepared to contribute its skills and services to other Handy & Harman companies. Each is a company whose specialized product lines serve unique needs of all industries.



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precious metal inventories. Each year we have adjustments to income reflecting the cumulative effect of all of the differences between cost and market of the precious metals we use. These inventory adjustments, which are not determinable until year-end, are immaterial some years and of significance other years, depending on opening and closing inventory levels, market conditions and a number of other factors. For the past two years these adjustments did have some significance, and earnings attributable to silver inventory profits have accounted for about 10% to 15% of the total. In this connection, our precious metal inventories are reported on a LIFO (last-in, first-out) method of accounting. Under this method inventories are carried on the balance sheet at cost, and the difference between cost and the much higher market value is reflected in a reserve. As at December 31, 1968 this reserve amounted to \$24,000,000 based on a year-end silver price of \$1.90.

Several years ago the Canadian authorities deprived our subsidiary in Toronto of the right to use LIFO for tax purposes, although we have continued to use it in consolidation. As silver and gold prices have gone up, this subsidiary has had to pay taxes on the full market gain on its precious metal inventories, and the tax liability for 1968 has virtually eliminated what would have been very satisfactory operating profits. This is a classic illustration of the importance of the LIFO accounting method as applied to the precious metal business, where the raw material value is such a high percentage of the product cost and where inventories must be maintained at relatively constant levels. We have been working continually with the Canadian authorities for permission to restore LIFO, and we are hopeful that our efforts will ultimately be successful. In the meantime the price of silver is now lower than last year, and if this holds true at year-end there could be some tax recoveries in 1969.

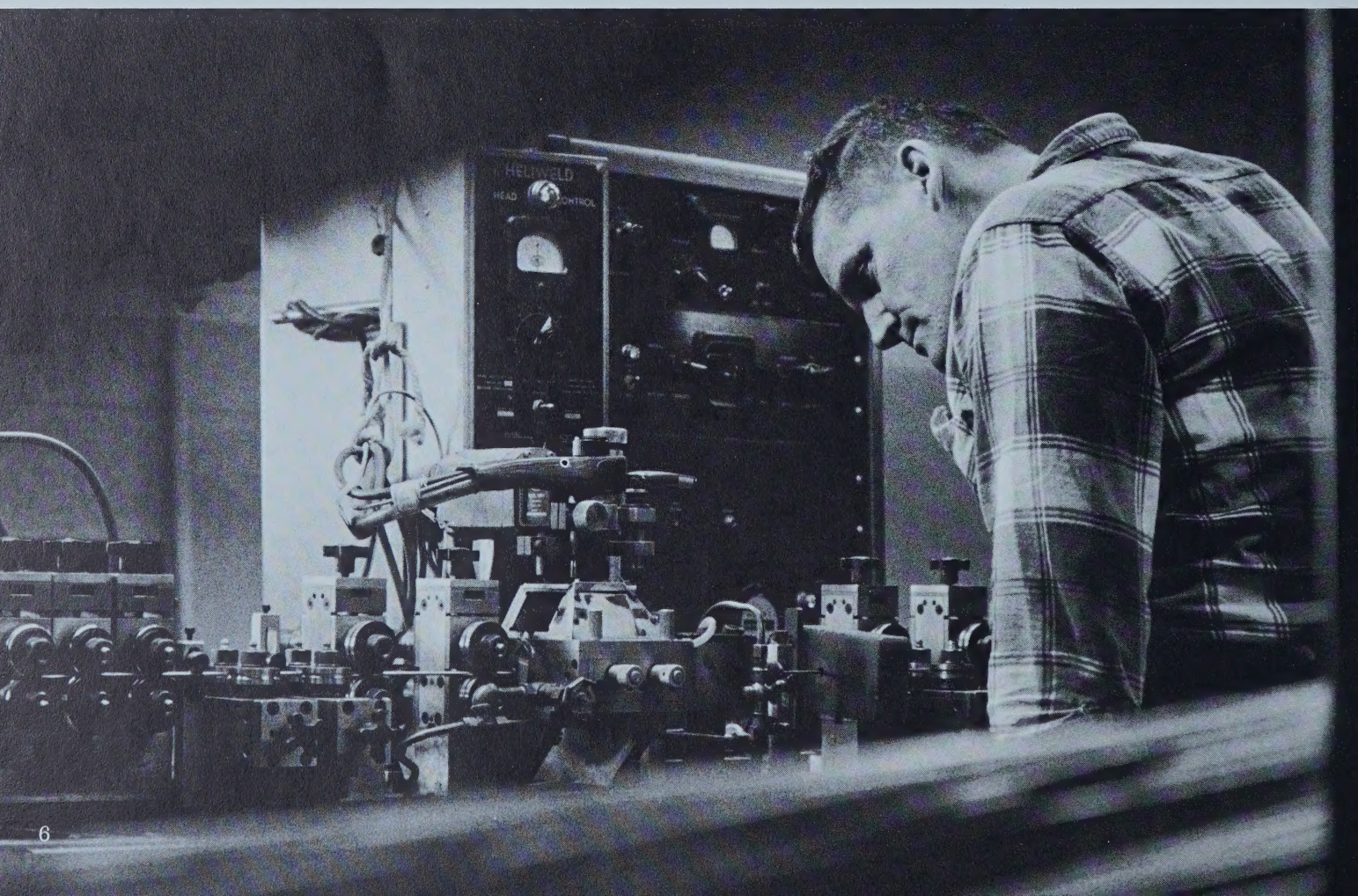
Financial Structure Improved

Handy & Harman has always borrowed substantial amounts in order to finance its precious metal inventories. This is the nature of its business. Traditionally this borrowing has been done on a short term basis, both from banks at the prime rate and in the commercial paper market. As the company has grown, and in view of the

1 Donald Kraft (left), Attleboro Plant Superintendent, and Michael Baker, Plant Manager, confer on scheduling problem.

2 A step in the electrolytic process, salvaging precious metals for refining at Attleboro Refining.

3 Manpower and machinery at work during refining procedures at Attleboro Refining Division.



recent substantial increases in the prices of both silver and gold, more money has been needed to run the business. Accordingly, it has seemed advisable to convert some of these short term borrowings into long term debt, and this was accomplished during 1968. On November 1st the company borrowed \$10,000,000 from New York Life Insurance Company under a 20 year note, and bank lines were reduced proportionately. We believe that this gives us a more balanced financial structure.

Growth Through Research and Development

Research and development effort at Handy & Harman has been and will continue to be one of the most important contributors to growth, and it received increasing emphasis during 1968. One development was the atomizing process for manufacturing silver powders directly from the melt. This process, which reached production levels during 1968, has resulted in better products and lower costs, as well as extending our capabilities to take on new business in non-precious metal alloy powders.

Other developments include important progress in expanding and improving our processes for handling profitably the recovery of precious metal values from the growing quantities and varieties of industrial scrap and refining materials. This is one of the fastest growing areas of our precious metal business, and it will receive increasing emphasis in the future.

Further Progress Made Through Acquisitions

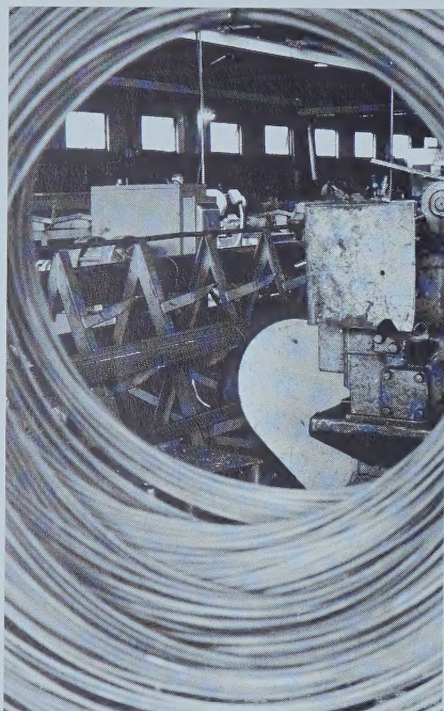
A total of four companies joined our corporate family during 1968, the same number as in 1967. This is gratifying progress toward our long range diversification goal, which is to derive ultimately 50% of our profits from non-precious metal business. However, this is a moving target because our precious metals business continues to expand. During 1969 we expect to reach a ratio of about 30% from non-precious metals and 70% from precious metals.

Three of the four companies we acquired in 1968 are in non-precious metals and one is in precious metals. In May we acquired Ladek Metal Products, Inc., based in Oak Creek, Wisconsin, which processes specialty metal forms. As of September 1st we purchased the full ownership of

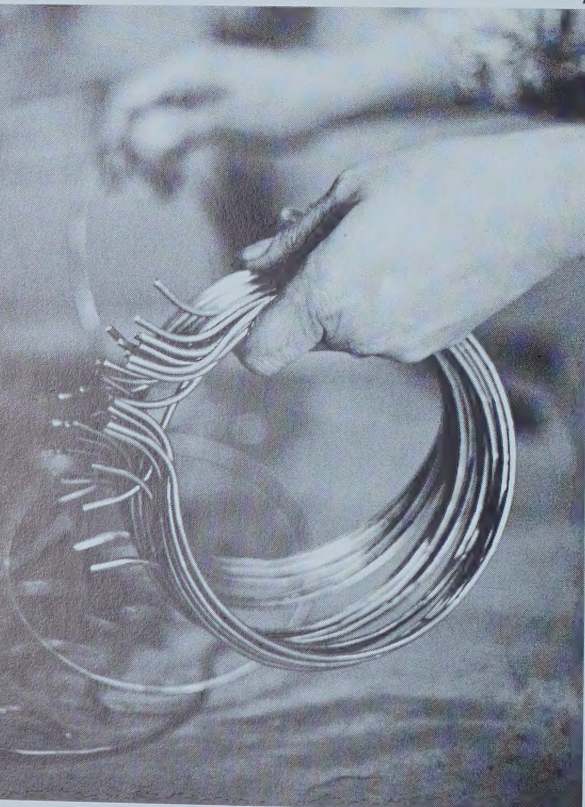
4 *Metal strips are rolled to precise thicknesses at Lucas-Milhaupt.*

5 *Lengths of stainless tubing are processed under watchful eyes at Handy & Harman Tube Co.*

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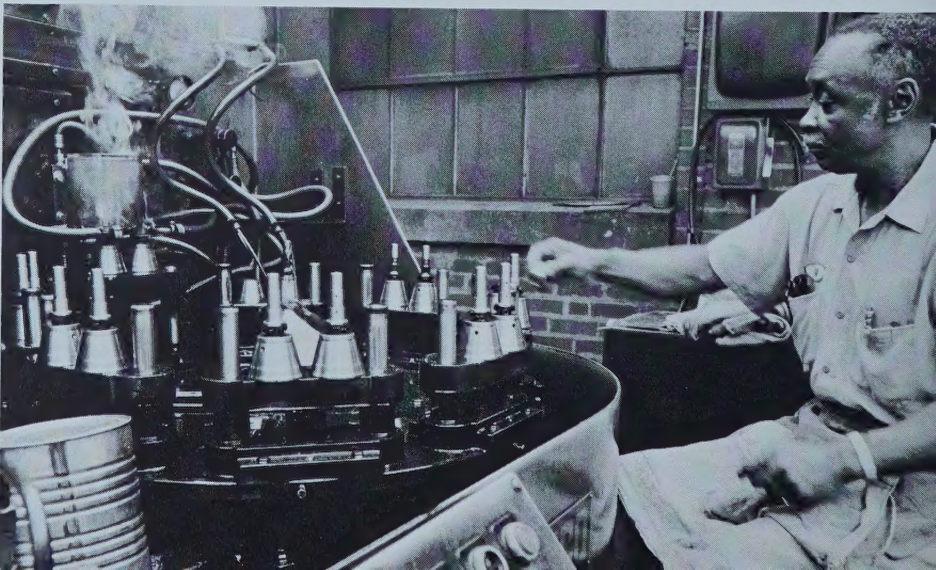
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Hi-Alloys, Inc., located in Cockeysville, Maryland, in which we had had a 50% interest. This company produces high speed steels used for industrial drills and similar equipment. On November 1st we acquired the Consolidated Tube Fabricating Corporation in Waterbury, Connecticut, which manufactures specialty tubing products.

Our precious metal acquisition, accomplished in June 1968, was the Attleboro Refining Co., Inc., a long established refinery located in Attleboro, Massachusetts. This company has been made a division rather than a subsidiary, and we plan to make it the base for expanding our refining business. We have purchased a 30 acre industrial site in Attleboro and will soon begin construction of a modern integrated precious metal refining complex. Handy & Harman now consists of the parent company, including the new Attleboro division, and ten wholly-owned subsidiaries, as well as a 50% interest in each of two joint ventures: Electric Thermometers, Inc., in Norwalk, Connecticut, and Rigby-Maryland, Ltd., in England.

Capital Expenditure Rate Maintained

Capital expenditures throughout the parent company and subsidiaries amounted to a total of about \$2,800,000 in 1968, slightly more than in 1967. An analysis of where our money was generated and how it was spent during 1968 appears on page 18 of this report.

For the first time the amounts spent by the subsidiaries exceeded the amount spent at the parent company. Important items included the construction of new plant additions at Maryland Specialty Wire, Pennsylvania Wire Rope, and Lucas-Milhaupt, as well as the purchase of the Attleboro site already referred to. Expenditures involving control of air and water pollution were also of significance, because the nature of many of our operations is such that we must continually be alert to our community responsibilities.

Other capital expenditures included many new and improved equipment installations at the subsidiaries, as well as the parent company, all designed to bring about more efficient operations resulting in lower costs and better products.

Silver and Gold Supplies Ample

The price of silver followed a highly erratic pattern during 1968. Throughout the year the market was dominated by

6 *Finished drill rods are seen through rolls of raw material in Hi-Alloys Plant.*

7 *Aluminum rings made by Ladek for brazing calrod units to bases of fry pans.*

8 *Drawing heavy wire to correct diameter at Maryland Specialty Wire.*

9 *Orange Roller Bearing's heat treating process in operation.*

"Handy & Harman today is a diversified industrial company which manufactures a wide variety of specialty metal products and which provides extensive refining services in the precious metal field. We are primarily involved in the fabrication and refining of silver and gold, but during the past several years we have diversified into other specialty metal areas."

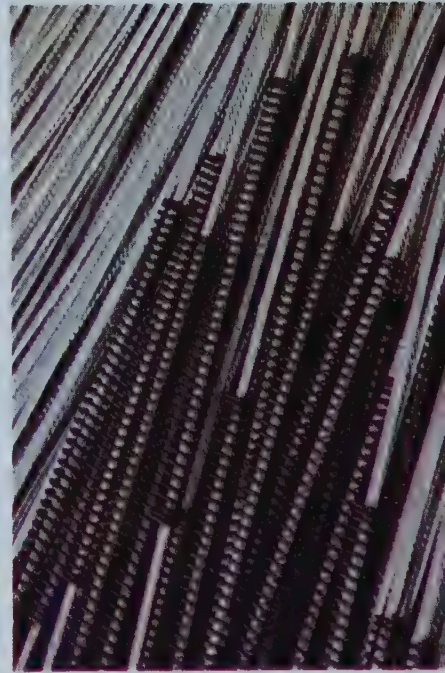
Excerpt from address by M. W. Townsend before the New York Society of Security Analysts, January 21, 1969.



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10 Karat gold tubing used by wedding ring manufacturers is produced at Handy & Harman's Mt. Vernon Plant.

11 Copper tubing sections at in-process stage, Consolidated Tube Fabricating.

12 Silver-copper relay parts for electronic data processing equipment at Handy & Harman's Fairfield Plant.

13 Bearing races ready for assembling at Orange Roller Bearing.

14 Pennsylvania Wire Rope is a major manufacturer of brake cable units for the automotive industry.

15 Spools of precision-finished wire ready for shipment from Maryland Specialty Wire.



6 *Ladeco's unique four-slide machines turn out thousands of steel linkage arms.*

7 *Coil of strip ready for punch press operation at Lucas-Milhaupt.*

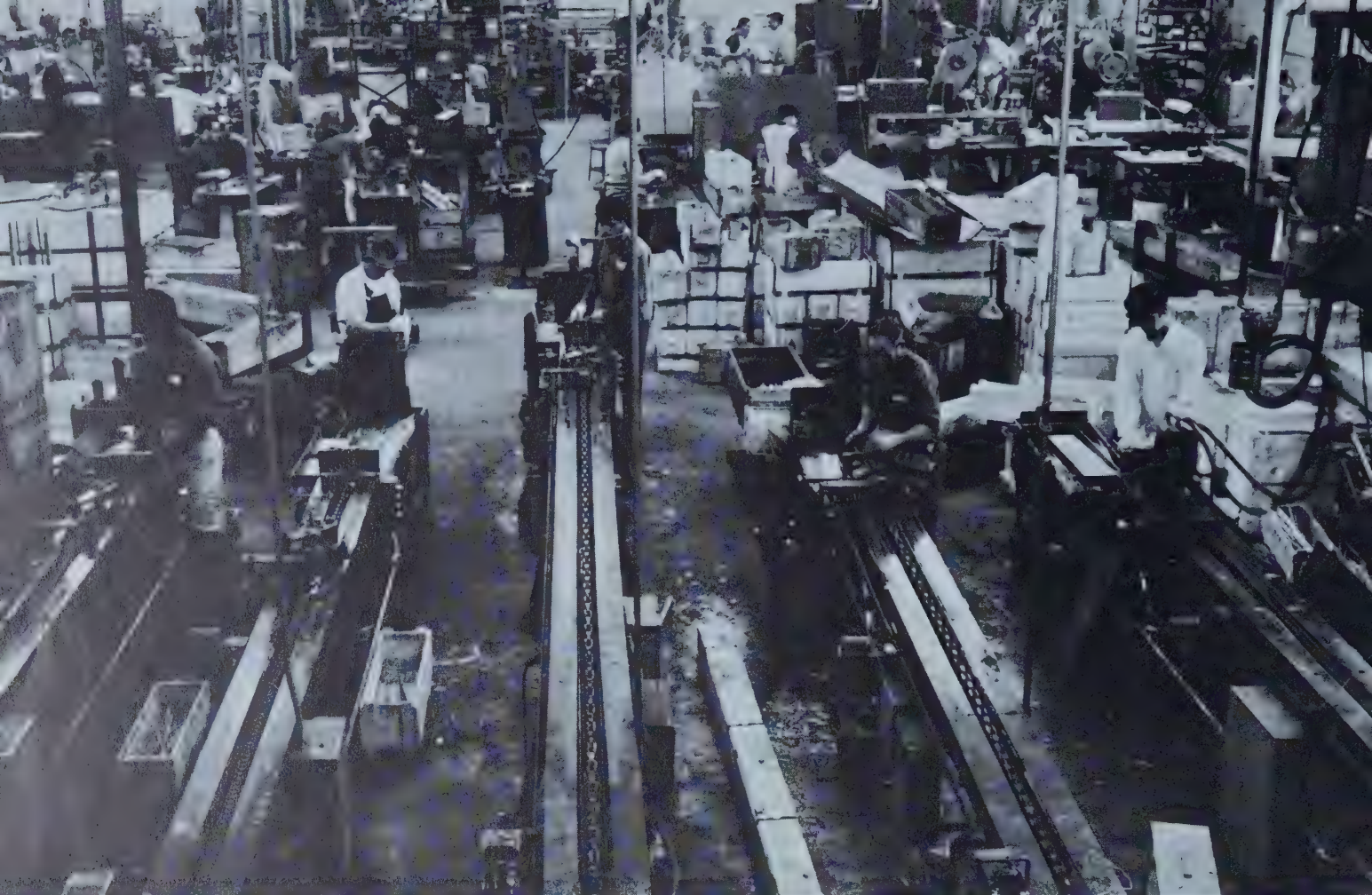
speculator activity, and violent price fluctuations resulted. However, it is interesting to note that for the first time in over a decade the price at the end of the year was lower than it was at the beginning.

We have continually emphasized that there are ample supplies of silver available for industry's needs. The much discussed gap between industrial consumption and new production will, in the future as in the past, be filled from a number of sources including continued sales by the Treasury, partial liquidation of the large stocks held by speculators, and very importantly silver from demonetized coin. At the present time the private melting of United States silver coins is illegal, but the Treasury is collecting them, melting them, and selling the silver. Nevertheless the Treasury will eventually run out, and in anticipation of this we urge that the melting ban be lifted so that the market may make a timely adjustment. Our 53rd Annual Review of the Silver Market was mailed to shareholders late in January. This Review covers in detail the events of 1968 and analyzes the principal factors which will affect the future.

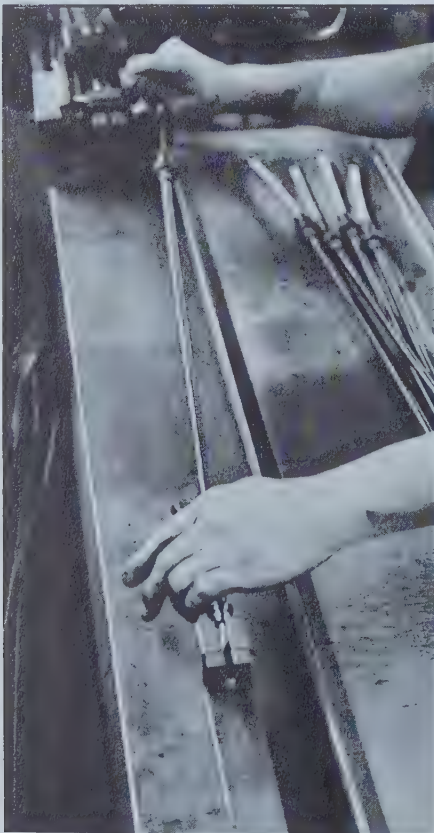
The gold market underwent a fundamental change in 1968. On March 17 the Treasury announced that it would no longer sell gold to domestic industry at the official \$35.00 price, after having supplied the market at a fixed price for some thirty-four years. Since then we have been buying our needs in the free market. Ample supplies are available, and prices, although considerably above \$35.00, have been much less volatile than anticipated. Industrial uses of gold consume less than half of free world new production so there is no question of any shortage; nevertheless, future prices are going to be affected by recurring international monetary crises. However, we do not believe that prices will go so high as to damage our business, assuming of course that there will be no official revaluation by the United States.

Changes in Directors

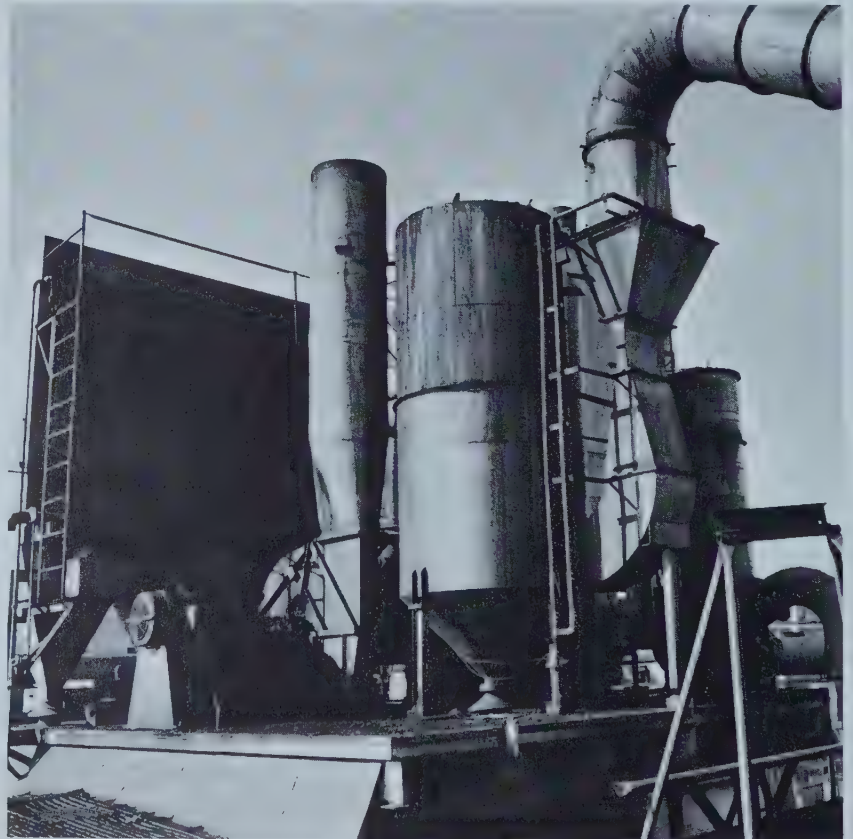
On February 26, 1968, Leonard C. Crewe, Jr., President and Chairman of the Board of Maryland Specialty Wire, Inc., our wholly-owned subsidiary in Cockeysville, Maryland, was elected to the Board. In addition, the management slate to be presented to shareholders at the Annual Meeting on April 16, 1969 includes Ezra K. Zilkha, who



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has been nominated for election to the Board. As noted in the proxy statement included with this report, Mr. Zilkha is Board Chairman of American International Bank and President of Zilkha & Sons, Inc.

Dividend Rate Unchanged

During 1968 dividends at the rate of 15¢ a share were paid on the first business day of March, June, September and December. The Board of Directors at its January 1969 meeting declared a regular quarterly dividend of 15¢ a share on the common stock of the company, paid on March 3, 1969.

Further Progress Anticipated in 1969

We are glad to be able to report such good results for 1968, achieved in spite of the serious drag on earnings from the 10% surtax and record high interest rates. For this fine showing in the face of decidedly mixed business conditions, we extend sincere thanks to all of our people, at the parent company and at the subsidiaries, for their combined contribution.

For 1969 we are planning further progress both from internal growth and new acquisitions. Our projections are based on the assumption that the surtax will be extended, and we are also anticipating some slow-down in the rate of growth of the economy in general. In spite of these factors we look forward to another good year for Handy & Harman in 1969.



M. WILBUR TOWNSEND
Chairman of the Board
and President

18 *Plant view of Consolidated
Tube Fabricating.*

19 *Automobile brake cable
assembly is subjected to
severe durability test before
shipment from Pennsylvania
Wire Rope.*

20 *To clean air and exhaust
gases before discharging into
the atmosphere, a hi-energy
scrubber and dust collector
system (rear) was installed
atop the Handy & Harman
plant at Fairfield, Conn.*

March 14, 1969

Directors and Officers

Board of Directors

THEODORE W. ATKINSON
 HOWARD W. BOYNTON*
 PHILIP L. CARRET*
 LEONARD C. CREWE, JR.
 CORTLANDT W. HANDY*
 WILLIAM H. NEWMAN
 PAUL L. PEYTON
 M. WILBUR TOWNSEND*
 JUDSON C. TRAVIS*
 FRANCIS H. WEMPLE

Officers

M. WILBUR TOWNSEND
 Chairman of the Board
 and President

 THEODORE W. ATKINSON
 Vice President—Production

 FRANCIS H. WEMPLE
 Vice President
 and Treasurer

 GEORGE J. PEER
 Vice President—Marketing

 CHARLES D. COXE
 Vice President—Research
 and Development

 LEIF C. KRONEN
 Secretary and Counsel

 G. NORMAN HORNER
 Controller

General Counsel

BREED, ABBOTT AND MORGAN

Auditors

HURDMAN AND CRANSTOUN,
 PENNEY & CO.

Transfer Agent

MORGAN GUARANTY TRUST
 COMPANY OF N.Y.

Registrar

THE CHASE MANHATTAN
 BANK (N.A.)

Stock Listing

NEW YORK STOCK EXCHANGE



M. WILBUR TOWNSEND



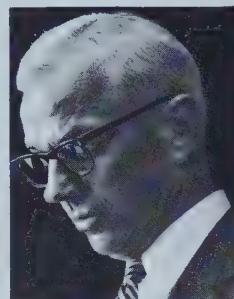
THEODORE W. ATKINSON



G. NORMAN HORNER



GEORGE J. PEER



FRANCIS H. WEMPLE



CORTLANDT W. HANDY



HOWARD W. BOYNTON



LEIF C. KRONEN



WILLIAM H. NEWMAN



PHILIP L. CARRET



PAUL L. PEYTON



CHARLES D. COXE



JUDSON C. TRAVIS



LEONARD C. CREWE, JR.

*Member of Executive Committee

Handy & Harman and Subsidiaries

Consolidated Balance Sheet

Assets

	December 31,	
	1968	1967
Current assets:		
Cash	\$ 6,908,818	\$ 7,922,167
Notes and accounts receivable (less allowance for doubtful: 1968—\$231,714, 1967—\$210,481)	26,774,248	22,431,094
Metals due from customers		339,312
Inventories—at cost (Note 2)	39,258,715	36,352,814
Prepaid expenses and deposits	1,310,945	563,129
Total current assets	74,252,726	67,608,516
Investments in and advances to 50%-owned companies—at cost (Note 3)	516,582	703,905
Property, plant, and equipment—at cost (Note 4)	25,279,824	20,726,011
Less accumulated depreciation and amortization (Note 4)	10,556,380	8,662,748
	14,723,444	12,063,263
Other assets	374,870	333,148
	<u>\$89,867,622</u>	<u>\$80,708,832</u>

Liabilities and Shareholders' Equity

	December 31,	
	1968	1967
Current liabilities:		
Notes payable	\$42,320,000	\$48,525,000
Current maturities of long-term debt (Note 5)	160,957	100,801
Accounts payable	5,360,933	4,481,899
Liability to customers for metal		94,516
Accrued liabilities:		
Payrolls, smelter charges, and other expense	1,068,536	814,625
United States and Canadian taxes on income	1,986,704	1,509,819
Other taxes	760,071	417,054
Total current liabilities	51,657,201	55,943,714
Long-term debt, less instalments due within one year (Note 5)	11,172,465	971,729
Commitments and contingent liabilities (Note 6)		
Shareholders' equity:		
Common stock—3,000,000 shares of par value \$1 authorized; issued: 1968—2,085,029 shares, 1967—1,997,700 shares (Note 7)	2,085,029	1,997,700
Capital surplus	3,989,660	3,628,954
Retained earnings (Note 5)	21,580,498	18,693,988
	27,655,187	24,320,642
Deduct treasury stock: 1968—23,601 shares, 1967—19,871 shares, at cost	617,231	527,253
Total shareholders' equity	27,037,956	23,793,389
	<u>\$89,867,622</u>	<u>\$80,708,832</u>

The accompanying notes are an integral part of these statements.

Handy & Harman and Subsidiaries

Consolidated Statement of Income

	Year Ended December 31,	
	1968	1967
Sales of products and service revenues	\$200,653,362	\$182,518,818
Cost of products and services	179,793,468	165,136,574
Gross profit	20,859,894	17,382,244
Selling, general, and administrative expense	9,036,364	8,108,166
	11,823,530	9,274,078
Other deductions (income):		
Interest on loans	3,145,467	2,391,344
Other—net	(210,062)	(21,290)
	2,935,405	2,370,054
	8,888,125	6,904,024
Provision for United States and		
Canadian taxes on income	4,760,000	3,257,000
Income from continuing operations	4,128,125	3,647,024
Loss from discontinued operations, less related		
Federal income tax effect, \$47,500		51,565
Income before extraordinary charge	4,128,125	3,595,459
Extraordinary charge—loss on sale of certain assets		
relating to discontinued operations, net of tax		132,174
Net income for the year	\$ 4,128,125	\$ 3,463,285
Per share of common stock (Note 9):		
Income from continuing operations	\$2.00	\$1.76
Loss from discontinued operations		(.02)
Extraordinary charge, net of tax		(.06)
Net income	\$2.00	\$1.68

The accompanying notes are an integral part of these statements.

Handy & Harman and Subsidiaries

Consolidated Statement of Shareholders' Equity

Year Ended December 31, 1968

	\$1 Par Value Common Stock	Capital Surplus	Retained Earnings	Treasury Stock		Total Share- holders' Equity
				Shares	Cost	
Balance, January 1, 1968	\$1,997,700	\$3,628,954	\$18,693,988	19,871	(\$527,253)	\$23,793,389
Add amounts applicable to companies acquired in poolings of interests	85,829	323,956	(45,582)	(27,470)	870,160	1,234,363
Net income for the year			4,128,125			4,128,125
Cash dividends on common stock—\$.60 per share			(1,196,033)			(1,196,033)
Stock options exercised	1,500	36,750				38,250
Common stock purchased for treasury				31,200	(960,138)	(960,138)
Balance, December 31, 1968 . . .	<u>\$2,085,029</u>	<u>\$3,989,660</u>	<u>\$21,580,498</u>	<u>23,601</u>	<u>(\$617,231)</u>	<u>\$27,037,956</u>

Changes in shareholders' equity during 1967, after restatement for amounts applicable to poolings of interests transactions in that year (an increase of \$3,059,895), were principally net income of \$3,463,285 and amounts received on sale of common stock and exercise of stock options totaling \$1,697,511, less cash dividends paid and cost of common stock acquired for the treasury in the amounts of \$1,059,461 and \$764,858, respectively, and miscellaneous credits totaling \$80,490. The foregoing resulted in increases in common stock \$389,180, capital surplus \$1,459, 205, retained earnings \$4,852,095, and treasury stock \$223,618.

The accompanying notes are an integral part of these statements.

Source and Use of Working Capital

	Year Ended December 31,	
	1968	1967
Working capital, January 1	\$11,664,802	\$10,321,438
Source:		
Net income for the year	4,128,125	3,463,285
Depreciation	1,304,495	1,058,826
	5,432,620	4,522,111
Long-term borrowings	10,430,684	
Working capital of pooled companies at date of acquisition	909,168	
Net income of pooled companies for short period credited to retained earnings ..		115,613
Sale of common stock	38,250	1,697,511
Other	67,704	
	16,878,426	6,335,235
Use:		
Fixed assets acquired—net	2,859,726	2,577,817
Repayments on long-term debt	436,646	198,159
Dividends paid	1,196,033	1,094,584
Purchase of treasury stock	960,138	764,858
Investments	284,000	324,019
Other	211,160	32,434
	5,947,703	4,991,871
Net increase	10,930,723	1,343,364
Working capital, December 31	\$22,595,525	\$11,664,802

Notes to Financial Statements—1968

Note 1—Principles of Consolidation

The consolidated financial statements include the accounts of all wholly owned subsidiaries. The accounts of the Canadian subsidiaries were translated at appropriate rates of exchange. All significant intercompany items have been eliminated.

During 1968 the business and assets of Attleboro Refining Company, Consolidated Tube Fabricating Corporation, and Ladek Metal Products, Inc. (previously 25% owned) were acquired in exchange for an aggregate of 113,299 shares of the Company's common stock, including 27,470 treasury shares. These transactions have been accounted for as poolings of interests and as a part purchase, part pooling with respect to Ladek. The sales and results of operations of these companies, which are not material, have been included in the accompanying consolidated statement of income only from the beginning of their most recent respective fiscal year to December 31, 1968. Financial statements of these companies for prior fiscal years were unaudited. The omission of these companies from the 1967 financial statements has no significant effect upon the comparability of the statements. Effective January 1, 1969, these companies will operate on a calendar year basis.

The agreement to acquire Consolidated Tube provides for an adjustment in the number of shares of the Com-

pany's common stock issued to acquire this company, based on Consolidated's earnings (as defined) for the twelve months ending March 31, 1969. The maximum number of additional shares which may become issuable is limited to 25,000. Any adjustment in the number of shares issued in this connection would not have a material effect on net income per share of common stock.

Former shareholders of companies acquired in poolings of interests transactions, including those consummated during 1968, have warranted and represented that they will reimburse the Company for any undisclosed liabilities. At December 31, 1968, 32,700 shares of the Company's common stock are held in escrow to secure such warranties and representations.

On September 1, 1968, a subsidiary of the Company acquired for cash the remaining outstanding stock of Hi-Alloys, Inc., a previously 50%-owned company. This transaction has been accounted for as a purchase and, accordingly, the results of its operations have been included since September 1, 1968, the date on which it became a wholly owned subsidiary. The Company's equity in retained earnings of Hi-Alloys, Inc. prior to acquisition of the remaining 50%, has been reflected in the accompanying financial statements as an addition to consolidated retained earnings.

Note 2—Inventories

	December 31,	
	1968	1967
Precious metals and precious metal content of alloys and of products in various stages of manufacture . . .	\$30,233,948	\$29,805,191
Base metals, factory supplies, and raw material	3,975,292	2,598,684
Domestic subsidiaries:		
Finished goods	2,346,318	1,623,851
Work in process	1,572,999	1,432,534
Preforms	1,130,158	892,554
	<u>\$39,258,715</u>	<u>\$36,352,814</u>

Precious metal inventories in the amount of \$26,763,011 at December 31, 1968 and \$28,470,656 at December 31, 1967 are stated at cost as determined under the last-in, first-out method. The value of such inventories, principally silver, based on market quotations at these dates (\$1.90 per ounce in 1968 and \$2.10 in 1967) was \$24,523,831 and \$26,570,500, respectively, in excess of stated value. Other inventories are stated at cost or market, whichever is lower. It is not practicable to classify inventories of precious metals or preforms as to stage of completion.

Consumption of LIFO inventories in excess of purchases during 1968 resulted in a net gain after taxes on income of approximately \$406,000, equal to \$.20 per share of common stock.

In addition to recorded inventories, the Company regularly has in its possession precious metals held for the account of customers. The value of such precious metals held at December 31, 1968 was approximately \$9,600,000, based on market prices at that date.

Note 3—50%—owned companies

Investments in and advances to 50% owned companies exceeded the Company's equity therein by approximately \$319,000 at December 31, 1968.

Note 4—Property, plant, and equipment

Property, plant, and equipment comprised the following:

	1968	1967
Land	\$ 849,544	\$ 528,565
Buildings	7,952,807	7,116,530
Machinery and equipment	14,599,053	11,492,564
Furniture and fixtures	873,943	791,382
Automobiles	241,860	164,902
Improvements to leased property	255,814	247,632
Construction in progress	506,803	384,436
	<u>\$25,279,824</u>	<u>\$20,726,011</u>

Depreciation for 1968 and 1967 was \$1,304,495 and \$1,058,826, respectively, and was computed principally on the straight line method. Certain of the Company's subsidiaries compute depreciation under accelerated methods.

Note 5—Long-term debt

The agreement relating to the 7% note, included in the following summary of long-term debt, contains certain restrictions on the payment of cash dividends and the acquisition of capital stock of the Company. The amount of consolidated retained earnings available for

such purposes at December 31, 1968 was \$3,510,204. The agreement further provides, among other things, for the maintenance of minimum working capital of \$12,000,000. Working capital at December 31, 1968 was \$22,595,525.

	1968	1967
5½%—6½% mortgages and chattel mortgages payable by subsidiaries at various maturity dates to 1981 . . . \$	722,672	\$ 382,430
Other 5% notes payable by subsidiaries to 1973	170,750	210,100
5% note payable by a subsidiary in annual instalments of \$40,000 to 1979	440,000	480,000
7% note, payable in annual instalments of \$667,000 from 1974 to 1988	10,000,000	—
	<u>11,333,422</u>	<u>1,072,530</u>
Less instalments due within one year	160,957	100,801
	<u>\$11,172,465</u>	<u>\$ 971,729</u>

Note 6—Commitments and contingent liabilities

The Company is lessee under one lease expiring in 1981 with an annual rental of \$33,000 and under another expiring in 1982 with a current annual rental of \$207,000 (\$33,000 annual rents recoverable under a sublease expiring in 1971).

Commitments at December 31, 1968 for additional plants and equipment were approximately \$200,000.

Note 7—Stock options

At December 31, 1968, 95,200 shares of common stock were reserved for issuance under the 1965 Stock Option Plan. Options for 46,700 shares at \$14.94 per share granted in 1965, and for 3,500 shares at \$25.50 per share granted in 1967, were outstanding at December 31, 1968, of which 37,200 were exercisable at that date. Options for 1,500 shares at \$25.50 per share were exercised during 1968. The excess of proceeds over the par value of such shares sold was credited to capital surplus.

Note 8—Retirement plans

The Company and certain of its subsidiaries have noncontributory retirement plans for the benefit of their employees. Charges to operations for the years 1968 and 1967 were \$863,867 and \$871,568, respectively, which amounts include amortization of past service cost over a period of approximately 30 years from the inception of the respective plans. The Company's policy is to fund pension costs accrued. At December 31, 1968, the assets of the respective funds exceeded the present value of vested benefits at that date.

Note 9—Earnings per share of common stock

Per share amounts are based on the average number of shares outstanding during each year adjusted retroactively to include shares issued in connection with poolings of interests transactions described in Note 1. Potential dilution of earnings per share of common stock, assuming exercise of all outstanding stock options, is not material.

Opinion of Independent Accountants

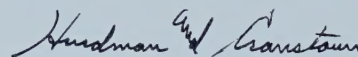
HURDMAN AND CRANSTOUN
Certified Public Accountants

140 Broadway
New York, N.Y. 10005

To Directors and Shareholders of Handy & Harman

We have examined the consolidated balance sheet of Handy & Harman and its subsidiaries as of December 31, 1968, the related consolidated statements of income and of shareholders' equity, and the statement of source and use of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements identified above present fairly the financial position of Handy & Harman and its subsidiaries consolidated at December 31, 1968, the results of their consolidated operations, and the changes in shareholders' equity and in working capital for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



Certified Public Accountants

February 19, 1969

Products & Services

PRODUCTS

Easy-Flo, Sil-Fos and other
Silver Brazing Alloys

Rolled Sterling Silver

Karat Golds and Gold Solders

Silver Contact Alloys

Bimetals and Trimetals

Brazing Powders and Pastes

Handy Flux

Handy Hi-Temp Brazing Alloys

Silver Powders and Flakes

Silver Oxide

999 "Plus" Fine Silver Anodes

"Special Refined" Grain Silver

Gold and Silver Wire

Dental Golds

Preforms, Rings and Metal Stampings

Gold Bars—Silver Bars

Platinum Metals

Silver Sintered Metals

Handy Silver Solders

Solder Flushed Silver Alloys

Handy Alumibraze

Small Diameter, Precision-Drawn Stainless,

Carbon Steel and Nickel Alloy Tubing

Formed Tubing Parts

Precision Roller and

Needle Bearings and Bushings

Specialized Stainless Steel Products

Stainless Steel Specialty Wire and Wire Rope

Platinum Thermocouple Wire and

Platinum Resistance Thermometer Sensors

SERVICES

Refining service for all forms of
waste materials and scrap parts
containing precious metals

Heat treating of ferrous and non-ferrous metals

Offices, Plants, Subsidiaries

HANDY & HARMAN

Executive and General Offices:

850 Third Avenue,
New York, N.Y. 10022

Plants:

Fairfield, Conn.

Mt. Vernon, N.Y.

El Monte (Los Angeles), Calif.

Attleboro Refining Division,
Attleboro, Mass.

Service Branches and Sales Offices:

Cleveland, Ohio; Dallas, Texas;
East Providence, R.I.;

Elk Grove Village
(Chicago), Ill.; El Monte
(Los Angeles), Calif.;

New York, N.Y.; Southfield
(Detroit), Mich.

SUBSIDIARIES

OF HANDY & HARMAN

HANDY & HARMAN TUBE CO., INC.
Norristown, Pa.

ORANGE ROLLER BEARING CO., INC.
Orange, N.J.

METALSMITHS DIVISION
Orange, N.J.

MARYLAND SPECIALTY WIRE, INC.
Cockeysville, Md.

HI-ALLOYS, INC.
Cockeysville, Md.

PENNSYLVANIA WIRE ROPE CORP.
Williamsport, Pa.

LUCAS-MILHAUPT, INC.
Cudahy, Wisc.

LADEK METAL PRODUCTS CO., INC.
Oak Creek, Wisc.

CONSOLIDATED TUBE FABRICATING CORP.
Waterbury, Conn.

ELECTRIC THERMOMETERS, INC.
Norwalk, Conn.

(owned jointly with Degussa, West Germany)

In Canada:

HANDY & HARMAN OF CANADA, LTD.
Toronto, Ont.

Montreal, Quebec

IPSENLAB OF CANADA, LTD.
Toronto, Ont.

In England:

MARYLAND-RIGBY (STAINLESS) LTD.
(owned jointly with John Rigby
& Sons, Ltd.)

Heckmondwike, Yorkshire

